THE SECRETARY OF COMMERCE
Washington, D.C. 20230

MEMORANDUM FOR: MEMBERS OF THE CABINET COUNCIL ON COMMERCE
AND TRADE (CCCT)

FROM   : Malcolm Baldrige, Chairman Pro Tempore
                  Cabinet Council on Commerce and Trade

SUBJECT   : Study of the Competitive Position of U.S. High
                  Technology Industries

The CCCT meeting of 14 December, 1981, requested that an assessment
of U.S. competitiveness in high technology industries be performed.
A CCCT Working Group on High Technology Industries was formed to
oversee the preparation of the report. The CCCT directed that the
study be prepared by a small working party drawing upon existing
materials.

A draft of the report was reviewed by the Working Group on May 19th
and circulated among interested agencies for comment.

Some of the key findings of the report were:

o   The U.S. lead in high technology has become challenged as
     other governments have made significant strides in
     narrowing the overall U.S. lead in technology.

o   Measured by broad indicators, the U.S. has lost competi-
     tiveness relative to Japan, West Germany, and France.

o   During the 1970s, U.S. high technology industries, relative
     to the remainder of the business sector, experienced twice
     the rate of real growth, one-third the rate of increase in
     prices, averaged six times greater productivity growth, and
     sustained favorable trade balance.

o   There are substantial differences in the structure of
     international capital markets. Some countries, in order to
     try to fulfill a variety of political and social
     objectives, emphasize the use of their banking systems to
     influence the pattern of industrial growth, especially in
     high technology industries.

o   While in absolute terms the U.S. supports the largest
     amount of R&D of any country, the relative advantage of the
     U.S. is declining.

o   The relative advantage of the U.S., both in terms of
     quantity and quality, in scientific and technical manpower
     is declining.

o   In a growing number of instances, foreign industrial policies have influenced competitiveness in high technology

o   The transfer of technology has accelerated the technological advance of U.S. competitors. One of the avenues for the transfer of technology, for example, is the weapons-related international cooperative programs of the Department of Defense.

Based on comments made at the May 19th meeting of the Working Group and written comments received afterwards, there are a number of issues which the CCCT report has not resolved. A revised draft is being prepared which incorporates the views of the agencies. Some of the key issues not resolved include:

o   While the report presents evidence that there has been a decline in the U.S. position in high technology, it does not present evidence on the extent of the decline nor does it provide any indication as to whether the U.S. is imminently threatened with the loss of technological preeminence.

o   The report does not completely address the causes of the decline nor weigh their relative importance.

o   The report does not fully examine the national security implications of the changing U.S. position in high technology.

Given the importance of U.S. preeminence in high technology to our economic and national security interests, it is vital to satisfactorily resolve these issues on the extent, cause, and implications of a declining U.S. position in high technology. A mandate should be given to the CCCT Working Group to conduct a broader interagency work program with the following terms of reference:

-   examine the extent of the U.S. decline in high technology

-   identify and weigh the relative causes of the decline

-   examine the policy implications for the United States, including our economic leadership role and national security, of a changing U.S. competitive situation in high technology

Dicussions of high technology issues are going forward in a number of international fora including the OECD, the GATT, post-Summit, the bilateral U.S.-Japan Working Group on High Technology. The United States needs a uniform approach to these discussions. The CCCT should be the focal point for coordination of these discussions of high technology issues.